

**Office of Inspector General  
Corporation for National and  
Community Service**

**AUDIT OF THE NATIONAL SERVICE TRUST  
FUND STATUS REPORT FOR THE YEAR ENDED  
SEPTEMBER 30, 2008**

**OIG REPORT 09-17**



*Corporation for*  
**NATIONAL &  
COMMUNITY  
SERVICE** 

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This report was issued to Corporation management on August 5, 2009. In the Corporation's response to the draft report, it agreed with the recommendation. This is considered to be the Management Decision. Under the laws and regulations governing follow-up, the Corporation is to complete its corrective actions by August 5, 2010.



## OFFICE OF INSPECTOR GENERAL

August 5, 2009

TO: Nicola Goren  
Acting Chief Executive Officer

FROM: Stuart Axenfeld /s/  
Assistant Inspector General for Audit

SUBJECT: Office of Inspector General's (OIG) Final Report 09-17: *Audit of the National Service Trust Fund Status Report for the Year Ended September 30, 2008*

Attached is the OIG's final report on the *Audit of the National Service Trust Fund Status Report for the Year Ended September 30, 2008*.

Under the Corporation's audit resolution policy, the notice of final action is due by August 5, 2010.

If you have questions pertaining to the final report, please contact Jim Elmore, Audit Manager, at (202) 606-9354 or [j.elmore@cncsoig.gov](mailto:j.elmore@cncsoig.gov).

Enclosure

cc: Frank Trinity, General Counsel  
William Anderson, Acting Chief Financial Officer  
Rocco Gaudio, Deputy Chief Financial Officer, GFFM  
Marlene Zakai, Senior Advisor to the Acting CEO  
Sherry Blue, Audit Resolution Coordinator



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**Audit of the National Service Trust Fund Status Report  
for the Year Ended September 30, 2008**

**Table of Contents**

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>BACKGROUND .....</b>	<b>1</b>
<b>OBJECTIVE, SCOPE, AND METHODOLOGY .....</b>	<b>2</b>
<b>CRITERIA .....</b>	<b>3</b>
<b>RESULTS .....</b>	<b>3</b>
<b>OTHER MATTERS .....</b>	<b>4</b>
<b>CONCLUSIONS AND RECOMMENDATIONS .....</b>	<b>5</b>
<b>EXIT CONFERENCE .....</b>	<b>6</b>
 <b>APPENDIX: CORPORATION FOR NATIONAL AND COMMUNITY SERVICE RESPONSE TO THE DRAFT REPORT</b>	

## **EXECUTIVE SUMMARY**

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), conducted the *Audit of the National Service Trust Fund Status Report for the Year Ended September 30, 2008* (Audit). We conducted the audit to express an opinion on whether the Corporation's September 2008 National Service Trust (Trust) Fund Status Report presents fairly, in all material respects, and to notify Congress' Committees on Appropriations of the accuracy of the report, as well as any internal controls weaknesses noted related to the Trust operations. In meeting the latter objective, the OIG will provide copies of this report to the committee.

In our opinion, the schedules referred to in the Trust Fund Status Report present fairly, in all material respects, the financial position as of September 30, 2008, and the results of its operations and changes in net position, budgetary resources, and Trust obligations for the year then ended in conformity with the basis of accounting described in the Trust Fund Status Report and provisions of the Strengthen AmeriCorps Program Act of 2003.

We noted that the current Corporation policies related to Trust operations and reporting are not current. Based on our observations, we recommend the Corporation update its policies, particularly Corporation Policy CFO-06-001, *Administrative Control of Funds*, and Corporation Policy 1027, *Calculating the Service Award Liability*. In Other Matters, we noted that certain input data to the Corporation's Service Award Liability (SAL) model may change significantly because the Edward M. Kennedy Serve America Act (Serve America Act) will become effective on October 1, 2009, which will significantly change existing Corporation operations and its AmeriCorps programs.

The Corporation concurred with our recommendation that it update its policies, and specifically its administrative control of funds policy. It also agreed that it should regularly review its policies to ensure that they remain current and has started reviewing all of its policies. In addition, The Corporation stated that it has begun a project to update the SAL model. The Corporation's verbatim response to the draft report is included as an Appendix.

## **BACKGROUND**

The Trust was established by the National and Community Service Trust Act of 1990, as amended, to provide funds for education awards for eligible participants who complete AmeriCorps service. AmeriCorps is the national service program that engages Americans of all ages and backgrounds in full-time and sustained part-time service to the community. AmeriCorps members are enrolled directly by the Corporation and by state, local, and national organizations.

Funding for the Trust comes from appropriations, interest earned, transfers from unused program funds, and proceeds from the sale or redemption of Trust investments. Under the National and Community Service Trust Act of 1990, funds are available to repay qualified student loans, pay educational expenses at qualified institutions of higher education, and repay eligible interest expense for student loans.

The value of an education award depends on the term of service performed by an AmeriCorps member.

We performed this audit pursuant to the Senate Report 110-107, which requested that the OIG review the Corporation's annual Trust Fund Status Report and to notify the Congress' Committees on Appropriations on its accuracy.

Our audit work on the Trust is separate from another effort, the annual audit of Trust schedules, performed for the OIG by an Independent Public Accounting (IPA) firm. While we contracted with the IPA to conduct an annual financial statement audit for the Corporation, the task order also requires the IPA to perform annual audits over the Trust schedules. Contents of the Trust schedules, compiled by the Corporation for the annual financial statement audit, are different from the Trust Fund Status Report prepared by the Corporation each month. Trust schedules include "Notes to the Trust Fund Schedules" and the following four schedules:

- Schedule of Financial Position;
- Schedule of Operations and Changes in Net Position;
- Schedule of Trust Obligations; and
- Schedule of Budgetary Resources.

Our audit of the Trust includes the above four schedules and the following schedules (which relate to membership enrollment data, as of September 30, 2008):

- Member Position Award Activity;
- Factors Affecting the National Service Trust Fund;
- Number of Refilled Positions; and
- Trust Enrollment Activity.

Our work on the Trust was conducted with the purpose of supplementing, but not duplicating, IPA audit work. We determined risk areas and tested audit areas that the IPA did not generally focus on due to the higher materiality that it applied in the audit.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

The objectives of this engagement are: (1) to express an opinion on whether the September 2008 Trust Fund Status Report presents fairly, in all material respects, the financial position as of September 30, 2008; and (2) to notify Congress' Committees on Appropriations of the accuracy of the September 2008 Trust Fund Status Report as well as any internal controls weaknesses noted that are related to Trust operations.

Our risk-based financial audit was based on the schedules and data presented in the September 2008 Trust Fund Status Report, which includes data, as of September 30, 2008. We initially decided to perform our work based on the May 2008 Trust Fund Status Report, but we observed that the Corporation incurred significant obligations in May 2008. To avoid any duplication of audit work performed by the IPA, we changed our audit period from May 2008 to September 2008. This audit also focused on: (1) the Trust reporting process; (2) obligations; (3) commitments; (4) personnel organizational roles and responsibilities; and (5) Corporation policies. Our work on this engagement was conducted intermittently between June 2008 and July 2009 due to the impact of other Audit Section priorities.

The methodology included interviews with Corporation employees, as well as reviews of Corporation correspondence and memoranda. We reviewed the Corporation's accounting and supporting documentation for Trust Fund Status Report. We obtained an understanding of the Corporation's process, issues, and events that affected the FY 2008 Trust operations. We also reviewed IPA workpapers for the annual financial statements audit. In addition, we identified, documented, and reviewed laws, policies, and procedures that relate to the Corporation's Trust operations and reporting.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audit contained in Government Auditing Standards issued by the Comptroller General of the United States. Government Auditing Standards requires that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **CRITERIA**

We identified, documented, and reviewed laws, policies, and procedures that relate to the Trust operations and reporting. The criteria we reviewed included:

- National and Community Service Act of 1990, as amended, SEC. 145(d)
- Strengthen AmeriCorps Program Act of 2003
- Consolidated Appropriations Act, 2008 (Public Law 110-161)
- Edward M. Kennedy Serve America Act (Public Law 111-13)
- Government Accountability Office (GAO) Standards for Internal Control in the Federal Government
- Corporation Policy: Administrative Control of Funds (CFO-06-001)
- Corporation Policy: Investment Policies and Procedures (CFO 002)
- Corporation Policy: Appropriated Transfers to Fund the National Service Trust (CFO 014)
- Corporation Policy: Handling Education Award Extensions (Policy 325)
- Corporation Policy: Calculating the Service Award Liability (Policy 1027)

## **RESULTS**

### **Corporation Policies on National Service Trust**

As we noted in a separate OIG engagement, Report 09-16, *Evaluation of the Fiscal Year 2008 Budget Process*, the Corporation's policy CFO-06-001, *Administrative Control of Funds*, has not been updated since its effective date of October 1, 2006. This version is the most recently cleared policy on Corporation fund control and budget matters. As a result of a series of changes in personnel and processes during FY 2008, portions of the *Administrative Control of Funds* do not reflect current reporting structures and practices at

the Corporation. Specific examples that relate to the section VIII. National Service Trust of the *Administrative Control of Funds* include:

- There are outdated references to the “Deputy CFO for Planning and Program Management” that outline roles and responsibilities of this employee related to the Trust process. When this employee departed from the Office of the CFO in January 2008, these responsibilities transitioned to other personnel, including the Deputy CFO for Financial Management, the Deputy CFO for Grants and Field Financial Management Center, and the Staff Director/Associate CFO.
- Under the sub-section 2.i. **Unfilled Slot Deobligation Control**, from the Corporation’s policy CFO-06-001, *Administrative Control of Funds*, dated October 1, 2006, it states “slot expiration and deobligation policies and procedures are currently being reviewed.” However, the Corporation did not update *Administrative Control of Funds* or issue separate policies and procedures regarding slot expiration and deobligation.

None of the above changes in the Corporation’s reporting structures and practices have been incorporated in the *Administrative Control of Funds*. Keeping the Corporation’s policies current with roles and responsibilities help ensure that the Corporation is functioning within the controls it has established and that the established controls remain effective regardless of changes in individuals or position responsibilities.

In addition, as noted in the FY 2008 financial statement management letter issued by the IPA, the IPA “identified at least twelve [Corporation policies] that are not current, but were listed as current.” One of these twelve outdated Corporation policies, Corporation Policy 1027, *Calculating the Service Award Liability*, relate to the Trust operations and reporting. *Calculating the Service Award Liability* has not been updated since its effective date of October 19, 1999.

*GAO Standards for Internal Control in the Federal Government* (November 1999) states that:

[I]nternal control activities help ensure that management’s directives are carried out. The control activities should be effective and efficient in accomplishing the agency’s control objectives. Control activities are the policies, procedures . . . that enforce management’s directives.

Without up-to-date internal control policies that are documented, articulated, and enforced throughout the Corporation, personnel may not clearly understand their responsibilities and the proper procedures to follow. Lacking current internal control policies also potentially increases the risk of reduced control and accountability over appropriated funds.

The Corporation stated in July 2009 that the process of reviewing its policies is underway.

## **OTHER MATTERS**

### **Service Award Liability (SAL) Model**

The Corporation reports a liability in its financial statements for the unpaid earned and expected-to-be-earned education award and interest forbearance costs that are expected to be claimed by AmeriCorps members (Service Award Liability or SAL). The Corporation

pays the education awards to educational and financial institutions on behalf of members who complete terms of service. Currently, the Trust liability is estimated through the calculations performed by the SAL model.

As the Serve America Act will become effective on October 1, 2009, the Corporation is authorized to create a series of new programs and initiatives, which will significantly change existing Corporation operations and its AmeriCorps programs. Major provision changes relating to the Trust include: (1) earning education awards through new programs, (2) increasing education award amounts by tying its value to the maximum Pell Grant amount, (3) allowing members to receive up to the value of two full-time education awards instead of capping at two education awards; and (4) allowing members over the age of 55 to transfer their earned education awards to an eligible child or grandchild.

With the above changes, certain input data (expected member enrollment and service award outlay) to the SAL model may change significantly because the assumptions of the input data are based on the National and Community Service Act of 1990, as amended. Without considering potential impact of input data to the SAL model, Trust liability may be incorrectly projected and estimated. This may increase the risk of material misstatement of SAL and member over-enrollment.

Although these matters did not have an impact on the September 2008 Trust Fund Status Report, it will be necessary for the Corporation to review assumptions related to input data in the SAL model in order to continue generating reliable Trust liability figures when the Serve America Act becomes effective.

## **CONCLUSIONS AND RECOMMENDATIONS**

We have audited the accompanying Schedule of Financial Position of the Corporation's Trust Fund Status Report, as of September 30, 2008, and the related Schedule of Operations and Changes in Net Position, Budgetary Resources, and Trust Obligations for the year then ended. We also audited the following schedules: Member Position Award Activity, Factors Affecting the National Service Trust Fund, Number of Refilled Positions, and Trust Enrollment Activity - Program Years 1994 through 2008. These schedules are the responsibility of Corporation management. Our responsibility is to express an opinion on these schedules based on our audit.

The accompanying schedules were prepared for the purpose of complying with provisions of the Strengthen AmeriCorps Program Act, and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the schedules referred to above present fairly, in all material respects, the financial position of the Corporation's Trust Fund Status Report as of September 30, 2008, and the results of its operations and changes in net position, budgetary resources, and Trust obligations for the year then ended in conformity with the basis of accounting described in the Trust Fund Status Report and provisions of the Strengthen AmeriCorps Program Act of 2003.

We recommend that the Corporation update its current policies, particularly Corporation Policy CFO-06-001, *Administrative Control of Funds*, and Corporation Policy 1027,

*Calculating the Service Award Liability.* Specifically, Corporation policies should be updated timely and when necessary to reflect changes in:

1. Corporation organizational structures;
2. Personnel roles, responsibilities, and their reporting structures; and
3. Operational and reporting requirements such as that necessary to incorporate requirement of the Serve America Act.

### **Corporation's Response**

The Corporation concurred with our recommendations. The Corporation stated that it should regularly review its policies to ensure that they remain current and is reviewing all of its policies. The Corporation also stated that it has begun a project to update the SAL model and expects to award a contract of the project in August 2009.

### **OIG's Comment**

While the Corporation plans to revise its policies, including *Administrative Control of Funds*, the Corporation has yet to address how it will avoid recurrence of these outdated policies. A similar recommendation in Report 09-16, *Evaluation of the Fiscal Year 2008 Budget Process*, addresses this concern in more detail. Therefore, action planned for the recommendation in this report is satisfactory.

### **EXIT CONFERENCE**

We conducted an exit conference with Corporation management on July 21, 2009, and discussed the results of this report. The Corporation's verbatim response to the draft report is included as an Appendix.

This report is intended for the information and use of the OIG, Corporation management, and the U.S. Congress. However, this report is a matter of public record and its distribution is not limited.

/s/

Stuart Axenfeld  
Assistant Inspector General for Audit  
July 17, 2009

**APPENDIX:**

**CORPORATION FOR NATIONAL AND COMMUNITY SERVICE  
RESPONSE TO THE DRAFT REPORT**



**MEMORANDUM**

**Date:** July 31, 2009

**To:** Stuart Axenfeld, Assistant Inspector General for Audit

**From:** William Anderson, Acting CFO

**cc:** Nicola Goren, Acting CEO  
Kristin McSwain, Chief of Program Operations  
Marlene Zakai, Senior Advisor to the Acting CEO  
Robert Loring, Director of Accounting  
Maggie Coates, Chief, Trust Operations

**Subject:** Corporation Comment on the Draft OIG Report: *Audit of the National Service Trust Fund Status Report for the Year Ended September 30, 2008*

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Thank you for the opportunity to comment on the Office of the Inspector General Draft Report: *Audit of the National Service Trust Fund Status Report for the Year Ended September 30, 2008*, dated July 27, 2009. I am pleased that the Trust schedules continue to receive an unqualified opinion. The Corporation will continue to refine and improve on the information presented in the report to ensure that Trust operations are transparent and that Congress receives useful and timely information on the status of Trust funds.

The report recommends that the Corporation update its current policies related to the Trust, particularly in light of the impending changes to programs included in the recently passed Serve America Act. The Corporation agrees that it should regularly review policies to ensure that they remain current and has a project underway to review all of its policies, including the funds control policy. In addition, the Corporation has begun a project to update the service award liability model and expects to award a contract in August. Accordingly, this memorandum constitutes the Corporation's management decision on these recommendations.